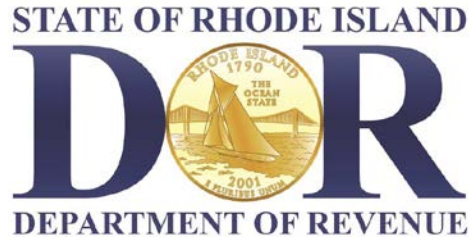


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report
Monthly and Year-to-Date FY 2018 as of September 2017

The monthly revenue assessment report compares adjusted revenues, on a monthly and fiscal year-to-date basis, to the Office of Revenue Analysis' monthly and fiscal year-to-date estimates of expected revenues based on the current fiscal year revenue estimates. It should be noted that the fiscal year revenue estimates will vary over the course of the fiscal year as the Revenue Estimating Conference (REC) (see Rhode Island General Laws § 35-16-1 et seq.) convenes and modifies the fiscal year revenue estimates as enacted by the General Assembly.

The purpose of the Revenue Assessment Report is to give readers a sense of how the state's general revenues compare to those that might be expected if the official revenue estimates were being met in a predictable way. Caution should be exercised when interpreting this report as actual revenues may vary significantly from historical patterns. In addition, it is important for the reader to understand that enacted and adopted revenue estimates are made on an accrual basis, not a cash basis. Revenue accruals are not determined until at least one month after the fiscal year-end in June. Thus, even if the assessment of actual fiscal year-to-date revenues trails the fiscal year-to-date revenue estimates, it is possible for the fiscal year-end accrual to make up any shortfall.

This monthly revenue assessment report compares adjusted revenues to expected revenues based on the revenue estimates enacted in the FY 2018 budget, which was signed into law on August 3, 2017. The enacted revenue estimates will remain the basis of comparison for all Revenue Assessment Reports through the October 2017 report. Beginning with the November 2017 Revenue Assessment Report, the basis of comparison will be revenue estimates adopted at the November 2017 Revenue Estimating Conference.

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Year-to-Date Estimate to Actual

	YTD September Adjusted Revenues FY 2018		YTD September Estimate of Enacted FY 2018 Revenues †	Difference	Variance
Personal Income Tax †, Δ	\$ 322,503,336	a, b	\$ 324,673,338	\$ (2,170,002)	-0.7%
General Business Taxes					
Business Corporation †, Δ	23,188,793	a	27,076,482	(3,887,689)	-14.4%
Public Utilities Gross Earnings Δ	1,482,895		1,169,171	313,724	26.8%
Financial Institutions Δ	246,583		712,975	(466,392)	-65.4%
Insurance Company Δ	294,012	c	348,466	(54,454)	-15.6%
Bank Deposits	-		5,511	(5,511)	n/a
Health Care Provider Assessment Δ	11,138,032		11,164,408	(26,376)	-0.2%
Excise Taxes					
Sales and Use †, Δ	280,708,977	d	281,997,880	(1,288,903)	-0.5%
Motor Vehicle License and Reg Fees	1,946,174		2,090,432	(144,258)	0.0%
Motor Carrier Fuel Use	-		-	-	n/a
Cigarettes †, Δ	39,461,894		39,314,297	147,597	0.4%
Alcohol	5,228,606		5,460,979	(232,373)	-4.3%
Controlled Substances					
Other Taxes					
Estate and Transfer Δ	3,624,436	e	5,726,832	(2,102,396)	-36.7%
Racing and Athletics	259,721		280,588	(20,867)	-7.4%
Realty Transfer	3,685,362	f	3,506,400	178,963	5.1%
Total Taxes	\$ 693,768,821		\$ 703,527,758	\$ (9,758,937)	-1.4%
Departmental Receipts Δ	\$ 39,064,826	g, h	\$ 40,159,775	\$ (1,094,949)	-2.7%
Taxes and Departmentals	\$ 732,833,647		\$ 743,687,533	\$ (10,853,886)	-1.5%
Other General Revenue Sources					
Other Miscellaneous Revenues	224,255		224,255	+	-
Lottery Transfer	63,295,585		62,093,779	+	1,201,806
Unclaimed Property	-		-	+	-
Total Other Sources	\$ 63,519,840		\$ 62,318,034	\$ 1,201,806	1.9%
Total General Revenues	\$ 796,353,487		\$ 806,005,568	\$ (9,652,080)	-1.2%

PIT Component	YTD September Adj. Revenues		YTD September Enacted Estimates	Difference	Variance
Estimated payments	\$ 53,174,966	b	\$ 59,010,223	\$ (5,835,256)	-9.9%
Final payments †, Δ	12,048,332		11,165,218	883,114	7.9%
Withholding	281,014,718		269,254,623	11,760,096	4.4%
Refunds and Adjustments †	(23,734,680)	a	(14,756,725)	(8,977,955)	60.8%
Total	\$ 322,503,336		\$ 324,673,338	\$ (2,170,002)	-0.7%

† Enacted FY 2018 adopted revenues for personal income tax final payments and refunds and adjustments, business corporation taxes, sales and use taxes, and cigarettes taxes are calculated using modified cash based revenue flows to align expected revenues with the actual realization of revenues.

Δ Enacted FY 2018 revenues for these revenue items are calculated using modified revenues flows to align expected revenues from the 2017 Tax Amnesty with the actual realization of these revenues.

+ Set equal to actual amounts received.

Detailed notes on the following page

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Year-to-Date Estimate to Actual

- ^a Subtracts \$579,873 from personal income tax for transfers from business corporation tax to personal income tax in July and August 2017 to correct for payments received in FY 2017. Adds \$579,873 to business corporation tax for the offsetting transfers also in July and August 2017.
- ^b Includes large estimated payment(s) of \$2.5 million received in September 2017.
- ^c Subtracts \$1,297,387 for reimbursed Historic Structures Tax Credit(s) received in July 2017 and accrued back to FY 2017.
- ^d Includes \$500,000 from audit recovery payment(s) of prior year sales and use tax revenues received in September 2017.
- ^e Subtracts \$57,989,738 to reflect accrual of large, infrequently occurring payment(s) received in July 2017 to FY 2017.
- ^f Subtracts \$41,356 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the June 2017 transfer that occurred in July 2017 and the September 2017 transfer that will occur in October 2017.
- ^g Subtracts \$152,448,539 in departmental receipts for hospital licensing fees received in July that accrue back to FY 2017.
- ^h Adds \$320,548 for late payment(s) for board and support for the Rhode Island Veterans Home that were generated by September 2017 activity but not posted until October 2017.

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

	September Adjusted Revenues FY 2018		September Estimate of Enacted FY 2018 Revenues †	Difference	Variance
Personal Income Tax †, Δ	\$ 136,782,679	a	\$ 142,700,994	\$ (5,918,315)	-4.1%
General Business Taxes					
Business Corporation †, Δ	14,722,923		13,673,934	1,048,989	7.7%
Public Utilities Gross Earnings Δ	731,429		418,505	312,924	74.8%
Financial Institutions Δ	118,583		735,489	(616,906)	-83.9%
Insurance Company Δ	11,460		130,569	(119,109)	-91.2%
Bank Deposits	-		(310)	310	n/a
Health Care Provider Assessment Δ	3,599,654		3,781,723	(182,069)	-4.8%
Excise Taxes					
Sales and Use Δ	93,903,867	b, c	93,457,047	446,820	0.5%
Motor Vehicle License and Reg Fees	899,729		769,420	130,309	0.0%
Motor Carrier Fuel Use	-		-	-	n/a
Cigarettes Δ	14,412,753		14,055,484	357,269	2.5%
Alcohol	1,524,672		1,750,171	(225,499)	-12.9%
Controlled Substances					
Other Taxes					
Estate and Transfer Δ	1,550,387		1,612,775	(62,388)	-3.9%
Racing and Athletics	73,861		90,668	(16,807)	-18.5%
Realty Transfer	1,246,439	d	1,138,609	107,830	9.5%
Total Taxes	\$ 269,578,435		\$ 274,315,078	\$ (4,736,643)	-1.7%
Departmental Receipts Δ	\$ 14,998,615		\$ 14,265,627	\$ 732,988	5.1%
Taxes and Departmentals	\$ 284,577,050		\$ 288,580,706	\$ (4,003,656)	-1.4%
Other General Revenue Sources					
Other Miscellaneous Revenues	165,651	+	165,651	-	0.0%
Lottery Transfer	31,896,402		31,123,066	773,336	2.5%
Unclaimed Property	-	+	-	-	n/a
Total Other Sources	\$ 32,062,053		\$ 31,288,717	\$ 773,336	2.5%
Total General Revenues	\$ 316,639,103		\$ 319,869,422	\$ (3,230,319)	-1.0%

PIT Component	September Adj. Revenues		September Enacted Estimates	Difference	Variance
Estimated payments	\$ 44,189,260	a	\$ 50,442,827	\$ (6,253,567)	-12.4%
Final payments †, Δ	5,362,119		5,201,573	160,546	3.1%
Withholding	92,767,443		90,644,685	2,122,758	2.3%
Refunds and Adjustments †	(5,536,144)	a	(3,588,091)	(1,948,052)	54.3%
Total	\$ 136,782,679		\$ 142,700,994	\$ (5,918,315)	-4.1%

† Enacted FY 2018 adopted revenues for personal income tax final payments and refunds and adjustments and business corporation taxes are calculated using modified revenue flows to align expected revenues with the actual realization of revenues.

Δ Enacted FY 2018 revenues for these revenue items are calculated using modified revenues flows to align expected revenues from the 2017 Tax Amnesty with the actual realization of these revenues.

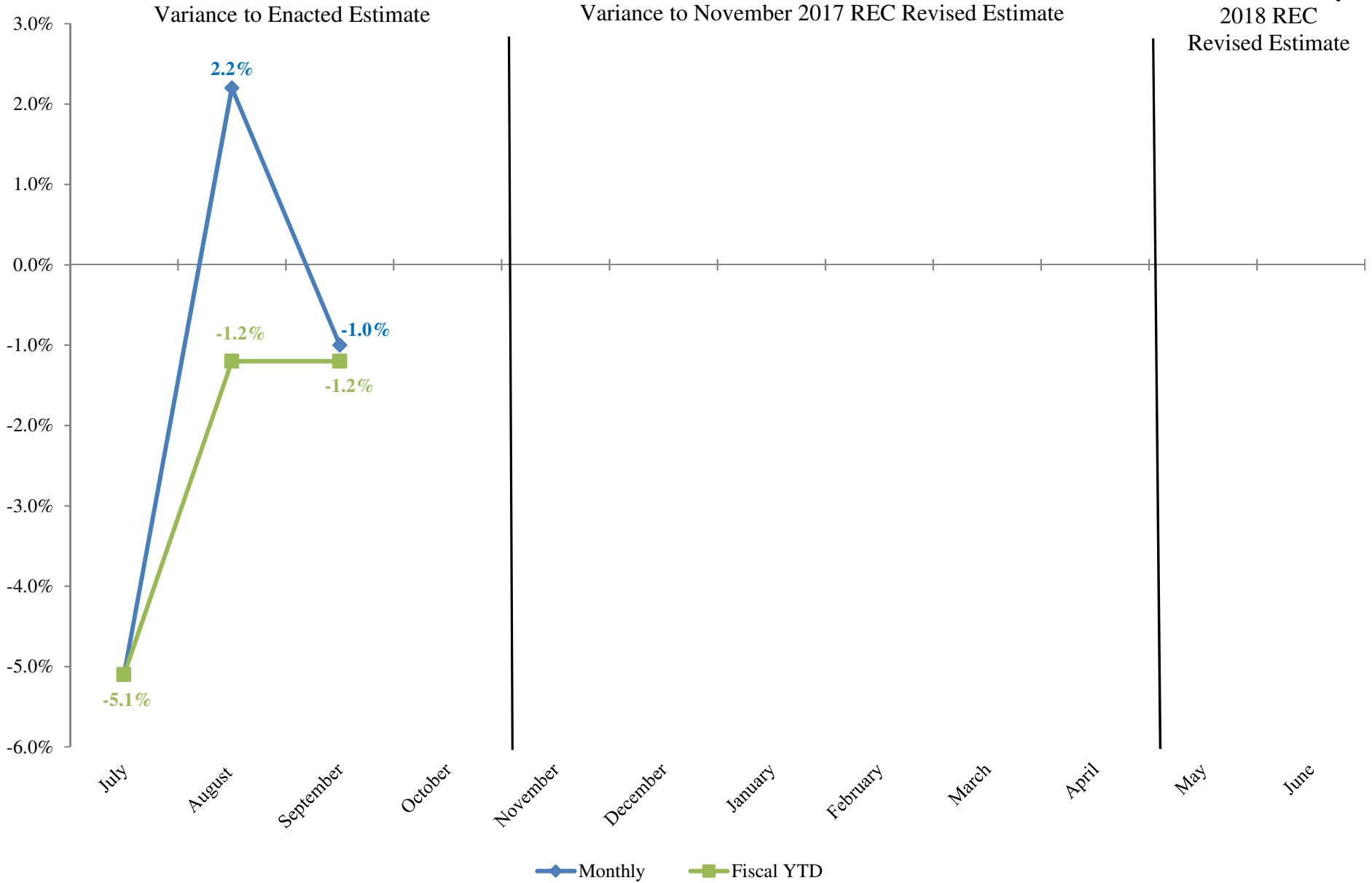
+ Set equal to actual amounts received.

Detailed notes on the following page

STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT
Monthly Estimate to Actual

- ^a Includes large estimated payment(s) of \$2.5 million received in September 2017.
- ^b Subtracts \$229,724 for payment(s) from Providence Place Mall that were received in August 2017 but not posted until September.
- ^c Includes \$500,000 from audit recovery payment(s) of prior year sales and use tax revenues received in September 2017.
- ^d Adds \$26,385 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the July 2017 transfer that occurred in August 2017 and the August 2017 transfer that will occur in September 2017.
- ^e Adds \$320,548 for late payment(s) for board and support for the Rhode Island Veterans Home that were generated by September 2017 activity but not posted until October 2017.

FY 2018 Variance of Adjusted Revenues to Estimate



Law Changes Enacted in the 2017 Session That Impact General Revenues

In the 2017 session, and earlier sessions, the General Assembly enacted several changes to the state's general laws that impact general revenues. These changes can be categorized as follows: (1) changes that reclassify revenues that were previously considered to be general revenues to other funds; and (2) changes that impact FY 2018 general revenues that will be realized through monthly revenue flows. Those changes in state law that impact monthly revenue flows will generally exhibit seasonality in the receipt of the revenue. The Office of Revenue Analysis (ORA) attempts to model the seasonality in such revenue flows in order to better align the expected receipt of revenues with the actual receipt of revenues. A more specific discussion of these items is provided in the appendix to this report.

Estimate of Enacted FY 2018 Revenues

In order to determine the expected monthly and fiscal year-to-date revenue estimates based on the enacted FY 2018 budget signed into law by Governor Raimondo on August 3, 2017, ORA first calculates the average percentage of total adjusted revenues that occurred in a given month over the previous five fiscal years for each revenue item.¹ For estate and transfer taxes, the previous ten fiscal years are used.² For monthly estimates, these percentages are applied to the enacted FY 2018 revenue estimate for each revenue item. For the fiscal year-to-date estimates, the monthly percentages are summed and then applied to the enacted FY 2018 revenue estimate for each revenue item. This methodology is used for all revenue items except for those revenue items impacted by the 2017 Tax Amnesty Act.³ For the revenue items expected to be impacted by the 2017 Tax Amnesty Act, the monthly percentage, or the sum of the monthly percentages, will be applied to the enacted FY 2018 modified cash revenue flows as estimated by ORA, taking into account the periodicity of expected tax amnesty payments. In the case of other miscellaneous

¹ The previous five fiscal years are FY 2013 through FY 2017. In the case of personal income tax refunds and adjustments revenues, FY 2011 through FY 2015 was used in computing the five fiscal year average percentage. These fiscal years were selected due to the impact on refund processing in FY 2016 and FY 2017 that resulted from the implementation of the new personal income tax system by the Division of Taxation.

For business corporation tax revenues, only FY 2017 was used to compute the fiscal year average percentage. The reason for this was two-fold. First, tax year 2016 was the first year for which the due date for final returns of C-corporations was shifted from three months after the close of the corporation's fiscal year (March for corporations with fiscal years that run from January through December) to four months after the close of the corporation's fiscal year (April for corporations with fiscal years that match the calendar year). Second, in the 2017 session, the General Assembly enacted a change in the timing and amount of estimated payments. For tax year 2018, C-corporations are required to make their first estimated payment by the 15th of the fourth month following the close of the corporation's fiscal year. In addition, all estimated payments made by C-corporations are to be equal to 25 percent of the corporation's expected TY 2018 liability. More details on this change are contained in the appendix.

² The previous ten fiscal years are FY 2008 through FY 2017.

³ The 2017 Tax Amnesty Act declares a tax amnesty from December 1, 2017 through February 15, 2018 for taxpayers with outstanding liabilities as of June 30, 2016, with all payments due by no later than March 31, 2018. The following revenue items are expected to be impacted by the 2017 Tax Amnesty Act: personal income tax final payments, sales and use tax, business corporation tax, public utilities gross earnings tax, financial institutions tax, insurance company gross premiums tax, the health care provider assessment, the estate and transfer tax, and the interest on overdue taxes portion of the fines and penalties component of departmental receipts.

revenues, the actual fiscal year-to-date revenues are used in place of an estimate due to the discrete and unpredictable nature in the timing of these receipts.

Table A provides the rounded five-year or ten-year, in the case of estate and transfer tax revenues, average percentages used to determine expected monthly and fiscal year-to-date revenues for September. It should be noted that ORA has made adjustments to these percentages based on the estimated flow of revenues that result from the changes in law enacted by the 2017 General Assembly.

Revenue Item	Percent Received		Revenue Item	Percent Received	
	Sept.	YTD		Sept.	YTD
Personal Income Taxes			Sales and Use Taxes	8.8 %	26.6 %
Estimated Payments	20.6 %	24.1 %	Motor Vehicles Fees	7.5 %	20.3 %
Final Payments	2.7 %	5.8 %	Cigarettes Taxes	9.8 %	27.5 %
Withholding Payments	7.7 %	22.9 %	Alcohol Excise Taxes	8.4 %	26.3 %
Refunds/Adjustments	1.2 %	4.7 %	Estate and Transfer	7.2 %	25.6 %
Business Corporation Taxes	8.7 %	17.3 %	Racing and Athletics	8.2 %	25.5 %
Utilities Gross Earnings Taxes	0.4 %	1.2 %	Realty Transfer	9.0 %	27.8 %
Financial Institutions Taxes	4.1 %	4.0 %	Departmental Receipts	6.6 %	18.7 %
Insurance Co. Gross Premiums	0.1 %	0.3 %	Lottery Transfer	8.6 %	17.1 %
Bank Deposits	0.0 %	0.2 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.4 %	24.9 %	Unclaimed Property	0.0 %	0.0 %

The health care provider assessment consists only of an assessment on nursing homes. Motor vehicle fees are comprised of fees paid for operators' licenses and motor vehicle registrations. Racing and athletics taxes consist of a tax on wagers placed on out-of-state greyhound and horse races that are broadcast to Rhode Island via closed circuit television. The "Percent Received" for monthly and year-to-date departmental receipts is calculated excluding hospital licensing fee revenues, which are large and generally made only once in the fiscal year. Finally, the lottery transfer does not begin in a given fiscal year until August, while the unclaimed property transfer occurs only in June of each fiscal year.

Due to the unusual characteristics of the enacted FY 2018 legislative changes for personal income tax final payments, personal income tax refunds and adjustments, business corporation tax, sales and use tax, cigarette excise tax revenues, and the 2017 Tax Amnesty, ORA had to adjust the revenue bases against which FY 2018 adjusted revenues would be assessed for these revenue items. In addition, previously enacted law changes, such as the exemption of up to \$15,000 of taxable pension and annuity income for certain taxpayers which passed in the 2016 session, will not flow through as

revenues until later in FY 2018.⁴ As a result, ORA will use modified cash revenue flows for expected FY 2018 revenues for these revenue items to gauge the sufficiency of adjusted FY 2018 revenues in meeting estimated revenues. The footnotes to Table B detail the breakdown of modified cash revenue flows and accruals for each of these revenue items.

The FY 2018 estimates by revenue item as enacted by the General Assembly and signed into law by Governor Raimondo are as follows:

Table B. FY 2018 Enacted Revenue Estimates by Major Revenue Item			
Revenue Item	Enacted FY 2018 Estimate	Revenue Item	Enacted FY 2018 Estimate
Personal Income Taxes		Sales and Use Taxes ^{d, Δ}	\$ 1,059,446,654
Estimated Payments	\$ 245,300,000	Motor Vehicles Fees	10,307,800
Final Payments ^{a, Δ}	189,588,586	Cigarettes Taxes ^e	143,120,881
Withholding Payments	1,175,800,000	Alcohol Excise Taxes	20,800,000
Refunds/Adjustments ^b	(316,300,000)	Estate and Transfer ^Δ	23,174,677
Business Corporation Taxes ^{c, Δ}	159,124,534	Racing and Athletics	1,100,000
Public Utilities Gross Earnings ^Δ	97,832,745	Realty Transfer	12,600,000
Financial Institutions Taxes ^Δ	20,135,012	Departmental Receipts ^{‡, Δ}	393,224,426
Insurance Co. Gross Premiums ^Δ	133,992,651	Lottery	362,500,000
Bank Deposits	2,500,000	Other Misc. Revenues	36,978,021
Health Care Provider Assessment ^Δ	44,796,520	Unclaimed Property	10,900,000
		Total General Revenues *	\$ 3,834,722,506
[‡] Departmental receipts figure includes estimated hospital licensing fee revenues of \$181,954,861. These revenues will be booked as an accrual in June. * Total general revenues estimate includes the personal income tax net accrual of \$7,800,000.			

Notes to Table B:

^a Personal income tax final payments revenues estimate includes a projected revenue impact of \$(12,681,591) from the exemption of \$15,000 of taxable pension and annuity income for eligible taxpayers. The realization of this law change will not impact FY 2018 revenue flows until March 2018 through June 2018. The enacted FY 2018 personal income tax final payments revenues estimate includes

⁴ In the case of personal income tax final payments, the impact of the 2016 passage of the exemption of up to \$15,000 of taxable pension and annuity income for certain taxpayers will not be realized until March through June 2018. For personal income tax refunds and adjustments, the enactment of the increase in the state EIC from 12.5 percent to 15.0 percent of the federal EIC in the 2016 session will not be realized until February through June 2018. For business corporation tax revenues, the impact of the reduction in the business corporation minimum tax to \$400 by the 2016 General Assembly will not be realized until March through June 2018. In the case of sales and use tax revenues, the impact of the new non-collecting retailer reporting requirements are expected to be realized in September 2017 through June 2018. Finally, for cigarette excise tax revenues, the increase in the cigarette excise tax rate is expected to be realized in September 2017 through June 2018 while nearly all of the cigarette floor stock tax revenue is anticipated to be received in August and September 2017.

\$4,298,862 in revenues from the 2017 Tax Amnesty Act. The realization of these revenues is expected to occur unevenly in December 2017 through March 2018. For the period from July 2017 through November 2017, FY 2018 personal income tax final payments revenues will be assessed against a “base” FY 2018 revenue estimate of \$198,131,591. For the period from December 2017 through February 2018, FY 2018 personal income tax final payments revenues will be assessed against a “base” FY 2018 revenue estimate of \$201,197,557. Finally, for the period from March 2018 through June 2018, adjusted FY 2018 personal income tax final payments revenues will be assessed against a base of \$186,522,620. These “bases” will be used instead of the FY 2018 enacted estimate.

- ^b Personal income tax refunds and adjustments revenues estimate includes a projected revenue impact of \$(5,344,652) from the enhanced Rhode Island earned income tax credit (EIC) at 15.0 percent. The realization of this revenue change will not impact FY 2018 revenue flows until the February 2018 through June 2018 period. As a result, ORA will assess adjusted FY 2018 personal income tax refunds and adjustments revenues against a “base” FY 2018 revenue estimate of \$(310,955,348) for the period of July 2017 through January 2018. For the period from February 2018 through June 2018, adjusted FY 2018 personal income tax refunds and adjustments revenues will be assessed against a base of \$316,300,000.
- ^c Business corporation tax revenues estimate of \$159,124,534 includes a projected revenue impact of \$(3,158,696) from the reduction of the business corporation minimum tax to \$400 effective January 1, 2017. The realization of this revenue change will not impact FY 2018 revenue flows until March through June 2018. The enacted estimate also includes \$6,696,000 of revenues from the transfer pricing audit project that is estimated to be realized from July 2017 through June 2018. As a result, ORA will assess adjusted FY 2018 revenues against a “base” FY 2018 revenue estimate of \$162,283,230 for the July 2017 through February 2018 period and a “base” revenue estimate of \$159,124,534 for March through June 2018.
- ^d Sales and use tax revenues estimate of \$1,059,446,654 includes a projected revenue impact of \$19,740,302 from enactment of the non-collecting retailer reporting requirements included in the FY 2018 budget. The realization of this revenue will not impact FY 2018 revenues until September 2017 through June 2018. As a result, ORA will assess adjusted FY 2018 sales and use tax revenue flows against “base” sales and use tax revenues of \$1,037,534,211 for July and August 2017 and \$1,059,446,654 for September 2017 through June 2018.
- ^e Cigarettes tax revenues estimate of \$143,120,881 consists of an estimated \$134,220,881 of cigarette excise tax revenues and \$8,900,000 of other tobacco products tax revenues. The cigarette excise tax revenues estimate includes \$7,159,075 from the increase in the cigarette excise tax to \$4.25 per pack. Of this amount, \$1,028,208 is cigarette floor stock tax revenue, 96.9 percent of which is expected to be realized in August 2017. The remainder, \$6,130,867, is cigarette excise tax revenue that is expected to be realized in September 2017 through June 2018. As a result, ORA will assess total adjusted FY 2018 cigarettes tax revenues against “base” cigarettes tax revenues of \$135,961,806 in July 2017, a “base” of \$142,061,154 in August 2017, and a “base” of \$143,120,881 in September 2017 through June 2018.
- ^Δ 2017 Tax Amnesty revenues estimate of \$12,500,000 is distributed across numerous revenue items. The realization of these revenues is confined to the months of December 2017 through March 2018. Although the percentage of the total revenue that is collected in each month varies depending on the revenue item in question, ORA has made adjustments to each revenue item’s base in order to assess adjusted revenues consistent with the expected receipt of tax amnesty payments. Details on how much tax amnesty revenue is expected for the affected revenue items is contained in the Appendix.

Results for FY 2018 through September

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2018 through September. As is apparent from the table, the Department of Revenue finds that FY 2018 adjusted total general revenues through September trailed the enacted FY 2018 expected total general revenues estimate through September by \$9.7 million, a variance of -1.2 percent. In total taxes, fiscal year-to-date through September adjusted revenues were less than the enacted FY 2018 through September expected revenue estimate by \$9.8 million, a deficit of -1.4 percent. For departmental receipts, FY 2018 through September adjusted revenues lagged the enacted FY 2018 expected fiscal year-to-date revenues estimate by \$1.1 million, a variance of -2.7 percent. For other general revenue sources, adjusted FY 2018 through September revenues were \$1.2 million, or 1.9 percent, more than the enacted FY 2018 expected fiscal year-to-date revenues.

One revenue item had adjusted revenues through September that exceeded enacted FY 2018 through September expected revenues by more than \$1.0 million.

- The lottery transfer adjusted revenues through September were \$1.2 million more than FY 2018 through September expected lottery transfer revenues, a variance of 1.9 percent.
 - The variance is due to combined games (scratch tickets, Powerball, Keno, etc.) and table games exceeding expectations while video lottery terminals trailed expectations.

FY 2018 adjusted revenues through September for public utilities gross earnings tax, realty transfer tax, and cigarettes tax were above their enacted FY 2018 through September revenue estimates but by less than \$1.0 million each.

On the negative side, five revenue items had adjusted revenues through September that fell short of the enacted FY 2018 through September expected monthly revenues estimate by \$1.0 million or more.

- Business corporation tax adjusted revenues through September were \$3.9 million or 14.4 percent below FY 2018 through September expected business corporation tax revenues.
- Personal income tax adjusted revenues through September were \$2.2 million less than FY 2018 through September expected personal income tax revenues, a deficit of -0.7 percent.
 - Adjusted FY 2018 personal income tax refunds and adjustments revenues through September were \$9.0 million more than expected fiscal year-to-date personal income tax refunds and adjustments revenues based on the FY 2018 enacted budget, a difference of 60.8 percent.
 - Personal income tax estimated payments adjusted year-to-date revenues were \$5.8 million or 9.9 percent below expected fiscal year-to-date personal income tax estimated payments revenues based on the FY 2018 enacted budget. Year-to-date adjusted personal income tax estimated payments revenues include large, infrequent payment(s) of \$2.5 million received in September 2017.
 - Adjusted FY 2018 personal income tax withholding payments revenues through September were \$11.8 million more than the \$269.3 million of expected FY 2018

personal income tax withholding payments revenues based on the estimate included in the FY 2018 enacted budget, a variance of 4.4 percent.

- Adjusted FY 2018 personal income final payments revenues through September were \$883,114 or 7.9 percent more than expected fiscal year-to-date personal income tax final payments revenues based on the FY 2018 enacted estimate. Adjusted FY 2018 personal income tax final payments revenues through September include \$1.6 million of reimbursed Historic Structures Tax Credits.
- FY 2018 adjusted estate and transfer revenues through September were \$2.1 million below the enacted FY 2018 through September revenues estimate of \$5.7 million, a deficit of -36.7 percent.
- Sales and use tax adjusted year-to-date revenues were \$1.3 million or 0.5 percent less than the year-to-date expected sales and use tax revenues. Year-to-date adjusted sales and use tax revenues include \$500,000 from audit recovery payment(s) of prior year sales and use tax owed that were received in September 2017.
- Departmental receipts through September adjusted revenues were \$1.1 million below the enacted FY 2018 through September revenues estimate of \$40.2 million, a variance of -2.7 percent.

FY 2018 adjusted revenues through September for financial institutions tax, alcohol excise tax, motor vehicle license and registration fees, insurance company gross premiums tax, healthcare provider assessment, racing and athletics tax, and bank deposits tax were below their enacted FY 2018 through September revenue estimates but by less than \$1.0 million each.

Results for the Month of September 2017

The table, *Monthly Estimate to Actual*, gives the results for September 2017. As is apparent from the table, the Department of Revenue finds that September adjusted total general revenues trailed the enacted FY 2018 expected total general revenues estimate for September by \$3.2 million, a variance of -1.0 percent. In total taxes, September adjusted revenues were less than the enacted FY 2018 expected monthly revenue estimate by \$4.7 million, a deficit of -1.7 percent. For departmental receipts, September adjusted revenues were ahead of the enacted FY 2018 expected monthly revenues estimate by \$732,988, or 5.1 percent. For other general revenue sources, adjusted FY 2018 monthly revenues for September were \$773,336 more than enacted FY 2018 expected monthly revenues for September, or 2.5 percent.

One revenue item had adjusted revenues in September that exceeded the enacted FY 2018 expected monthly estimate by \$1.0 million or more.

- September business corporation tax adjusted revenues were \$1.0 million above expected monthly business corporation tax revenues for September, a surplus of 7.7 percent.

September 2017 adjusted revenues for the lottery transfer, departmental receipts, sales and use tax, cigarettes tax, public utilities gross earnings tax, motor vehicle license and registration fees, realty transfer tax, and bank deposits tax were above the enacted FY 2018 revenue estimates for September, but by less than \$1.0 million each.

On the negative side, one revenue item had adjusted revenues in September that fell short of the enacted FY 2018 expected monthly revenues estimate by \$1.0 million or more.

- Personal income tax adjusted revenues for September were \$5.9 million less than the enacted FY 2018 expected monthly revenues estimate, a variance of -4.1 percent.
 - Personal income tax estimated payments adjusted revenues for September were \$6.3 million below the expected enacted revenues for September, a deficit of -12.4 percent. September 2017 adjusted personal income tax estimated payments revenues include large, infrequent estimated payment(s) of \$2.5 million.
 - Personal income tax refunds and adjustments revenues for September were \$1.9 million more than expected monthly personal income tax refunds and adjustments revenues, a variance of 54.3 percent.
 - September personal income tax withholding payments adjusted revenues were \$2.1 million more than expected FY 2018 enacted monthly revenues, a difference of 2.3 percent.
 - September personal income tax final payments revenues were 3.1 percent above expected September personal income tax final payments revenues, or \$160,546. September adjusted personal income tax final payments revenues include \$976,141 of reimbursed Historic Structures Tax Credit redemptions.

September 2017 adjusted revenues for financial institutions tax, alcohol excise tax, healthcare provider assessment, insurance company gross premiums tax, estate and transfer tax, and racing and athletics tax were below the enacted FY 2018 revenue estimates for September, but by less than \$1.0 million each.



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Appendix: Law Changes Enacted in the 2017 Session of the General Assembly

Revenue Changes That Reclassify General Revenues

In the 2014 session, the General Assembly passed legislation that reclassified 100.0 percent of all motor vehicle operator license and vehicle registration fees from general revenues to other funds, effective July 1, 2017. In the 2017 session, the General Assembly reduced the reclassification from 100.0 percent to 80.0 percent. The delay in the reclassification of these general revenue flows increases general revenue flows by an estimated \$9.36 million in FY 2018. This increase in general revenue is included in the enacted FY 2018 estimate of motor vehicle license and registration fees.

In the 2016 session, the General Assembly transferred from general revenues to restricted receipts the registration fees of medical marijuana patients and medical marijuana caregivers effective July 1, 2016. In the 2017 session, the General Assembly transferred back to general revenues the amount of registration and plant tag fees paid by medical marijuana patients and caregivers in excess of the cost to administer the state's medical marijuana program. The estimated revenues to be transferred total \$670,641. This increase in general revenue is included in the enacted FY 2018 estimate of other miscellaneous revenues.

The 2017 General Assembly reclassified the rental fees paid for the use of the Eisenhower House in Newport as restricted receipts. The effect of this reclassification is to reduce FY 2018 expected departmental receipts revenues by \$153,500. The realization of this revenue decrease is expected to be the same as departmental receipts revenues in general.

Revenue Changes That Will Be Realized Through Monthly Revenue Flows

2017 Tax Amnesty

The enacted FY 2018 budget provides for a tax amnesty for taxpayers delinquent on any Rhode Island taxes during the period from December 1, 2017 through February 15, 2018 with all payments due by March 31, 2018. The amnesty applies to any taxable period ending on or before December 31, 2016. For taxpayers whose amnesty applications are accepted, the Tax Administrator generally will not seek civil or criminal prosecution of the taxpayer, will waive penalties, and will reduce the applicable interest rate by 25 percent. The estimated impact of the tax amnesty on all taxes is \$12.5 million broken down as follows: personal income tax final payments revenues, \$4.3 million; business corporation tax revenues, \$824,534; public utilities gross earnings tax revenues, \$332,745; financial institutions tax revenues, \$35,012; insurance company gross premiums tax revenues, \$95,106; health care provider assessment revenues, \$102,421; sales and use tax revenues, \$2,306,641; cigarettes tax revenues, \$25,591; estate and transfer tax revenues, \$274,677; and departmental receipts revenues (where interest on overdue taxes is recorded), \$4,214,405. Given the timeframe associated with the tax amnesty, ORA has adjusted the July 2017 through November 2017 and the April 2018 through June 2018 revenue flows to reflect the lower expected revenues flows for each of these revenues items for these periods.

Personal Income Tax

In the 2016 session, the General Assembly enacted legislation that restructured the state's earned income credit (EIC). For tax years beginning on or after January 1, 2017, the state EIC is equal to 15.0 percent of the federal EIC claimed by a taxpayer with the amount of the state EIC greater than the taxpayer's state personal income tax liability fully refundable. Since TY 2017 personal income tax returns will not be filed until after January 1, 2018, most of the \$(5.3 million) impact from this law change is expected to be reflected in FY 2018 personal income tax refund revenue flows beginning in February. As a result, personal income tax refund revenue flows will be higher than the enacted personal income tax refunds and adjustments estimate for the period of July 2017 through January 2018. ORA has adjusted the July 2017 through January 2018 personal income tax refunds and adjustments revenue flows to reflect the higher expected revenues for this period.

Further, the 2016 General Assembly enacted legislation that exempts from state personal income taxes the first \$15,000 of taxable pension and annuity income, as reported on line 16 of Internal Revenue Service form 1040, for taxpayers with federal adjusted gross income in 2016 dollars of \$80,000 or less if filing as an individual or \$100,000 or less if filing a joint return. This exemption is provided only to those taxpayers that have reached full Social Security retirement age.⁵ Since TY 2017 personal income tax returns will not be filed until after January 1, 2018, most of the \$(12.7 million) impact from this law change is expected to be reflected in FY 2018 personal income tax final payments beginning in March. As a result, personal income tax final payments revenue flows will be higher than FY 2018 enacted personal income tax final payments revenues for the period July 2017 through February 2018. ORA has adjusted the July 2017 through February 2018 personal income tax final payments revenue flows to reflect the higher expected revenues for this period.

The 2017 General Assembly also enacted legislation to allow the use of carryforward amounts of historic homeownership tax credits against personal income tax liabilities effective for tax years beginning on or after January 1, 2017.⁶ Since TY 2017 personal income tax returns will not be filed until after January 1, 2018, most of the \$(160,276) impact from this law change is expected to be reflected in FY 2018 personal income tax final payments beginning in March. As a result, personal income tax final payments revenue flows will be higher than FY 2018 enacted personal income tax final payments revenues for the period July 2017 through February 2018. ORA has adjusted the July 2017 through February 2018 personal income tax final payments revenue flows to reflect the higher expected revenues for this period.

Finally, the 2017 General Assembly added two data analyst and two revenue officer positions to the Division of Taxation in FY 2018. The enacted FY 2018 personal income tax final payments revenue impact of this law change is \$750,000. The revenue flows from the addition of these four employees is expected to be realized completely during FY 2018 and in accordance to the general flow of revenues for this revenue item.

⁵ For TY 2017, persons born before 1952 will be eligible for a modification reducing federal Adjusted Gross Income subject to Rhode Island income tax.

⁶ In the 2010 session, the General Assembly prohibited the use of historic homeownership tax credits, as well as approximately 40 other personal income tax credits, as part of the reform of the personal income tax system effective for tax years beginning on or after January 1, 2011.

Business Corporation Tax

In the 2016 session, the General Assembly enacted into law a reduction in the annual corporate minimum tax paid by subchapter S corporations, limited liability companies, limited partnerships, limited liability partnerships, and some subchapter C corporations to \$400 effective for tax years beginning on or after January 1, 2017. Minimum corporate tax filers that have January to December taxable years are required to pay the minimum tax by March 15th of the following calendar year. For calendar year minimum corporate tax filers, final TY 2017 returns are due March 15, 2018. Thus, most of this \$(3.2 million) revenue change is expected to be realized in FY 2018 revenue flows, but not until March. ORA has adjusted the July 2017 through February 2018 business corporation tax revenue flows to reflect the higher expected revenues for this period.

The 2016 General Assembly approved the Governor's proposal to have the Division of Taxation undertake a transfer pricing audit project, which is expected to increase business corporation tax revenues by \$6,696,000 in FY 2017. Due to the slow implementation of this project, the expected revenue impact was shifted from FY 2017 to FY 2018. The revenue flows from the implementation of this project is expected to be realized completely during FY 2018 and is assumed to be realized in equal monthly amounts over the fiscal year.

In the 2017 session, the General Assembly enacted legislation that added two data analyst and two revenue officer positions to the Division of Taxation in FY 2018. The enacted FY 2018 business corporation tax revenue impact is \$500,000. The revenue flows from the addition of these four employees is expected to be realized completely during FY 2018 and in accordance to the general flow of revenues for this revenue item.

Sales and Use Tax

In the 2017 Session, the General Assembly passed legislation to require non-collecting retailers to either register with the Division of Taxation and begin collecting and remitting sales tax on sales into the state even if said non-collecting retailer lacks physical nexus in Rhode Island or to meet the following reporting requirements when making sales to a Rhode Island based customer:

- Post a specific notice on the website of the non-collecting retailer;
- Provide a notice at checkout that the purchases made may be subject to Rhode Island use tax;
- Provide a follow-up notice to the purchaser within 48 hours notifying said purchaser that the purchases previously made may be subject to Rhode Island use tax; and
- Send, by January 31st, to any customer who has made \$100 or more in cumulative annual purchases in the previous calendar year from the non-collecting retailer a list of the purchases made and the amount of use tax owed on these purchases.

The enacted FY 2018 sales and use tax revenue impact from this new reporting requirement is \$19.7 million. ORA has assumed that revenues from this change will not be realized until the September 2017 through June 2018 period and has adjusted the July and August 2017 sales and use tax revenue flows to reflect the higher expected revenues for this period.

The 2017 General Assembly also enacted legislation to assess the 7.0 percent use tax on the document fees associated with the purchase of a new motor vehicle. (This practice occurs in both Connecticut and Massachusetts.) The enacted FY 2018 sales and use tax revenue impact from this broadening of the use tax base, as it pertains to motor vehicles, is \$1.8 million. The revenue flows from this use tax base expansion are expected to be completely realized during FY 2018 and in accordance to the flow of registry receipts.⁷

In the 2017 session, the General Assembly passed legislation that added two data analyst and two revenue officer positions to the Division of Taxation in FY 2018. The enacted FY 2018 sales and use tax revenue impact is \$750,000. The revenue flows from the addition of these four employees is expected to be realized completely during FY 2018 and in accordance to the general flow of revenues for this revenue item.

Finally, the 2017 General Assembly enacted an increase in the cigarette excise tax from \$3.75 per pack of 20 cigarettes to \$4.25 per pack of 20 cigarettes. This increase in the cigarette excise tax is projected to increase the final price of a pack of cigarettes, after all markups and application of the sales tax, by 6.1 percent reducing the overall sales of cigarettes by 2.1 million packs. The decrease in the packs of cigarettes sold in Rhode Island is expected to decrease sales and use tax revenues by \$134,500. The realization of this decrease in sales and use tax revenue flows is not expected to occur until the September 2017 through June 2018 period. As a result, ORA has adjusted the July and August 2017 sales and use tax revenue flows to reflect the lower expected revenues for this period.

Motor Vehicle License and Registration Fees

The 2016 General Assembly passed a law reducing the registration fees that owners of trucks with gross vehicle weights of 10,000 lbs. or more would pay effective July 1, 2017. The 2017 General Assembly reversed this law and held the registration fees paid by such trucks constant at the level in effect prior to July 1, 2017. The impact of this change is expected to increase projected FY 2018 truck registration fees by \$4.2 million, 20 percent of which, or \$840,000, is to be retained as general revenues (see above). The revenue flows from the repeal of the reduction in truck registration fees are expected to be completely realized during FY 2018 and in accordance to the flow of motor vehicle license and registration fees.

In the 2017 session, the General Assembly enacted legislation eliminating the refund of motor vehicle registration fees for motor vehicles that pay registration fees biennially and have more than one year of a valid registration remaining when the vehicle's Rhode Island registration is ended. The impact of this change is to increase expected FY 2018 motor vehicle license and registration fees by \$539,000, 20 percent of which, or \$107,800, is to be retained as general revenues (see above). The revenue flows from the elimination of registration refunds is projected to be completely realized during FY 2018 and in accordance to the flow of motor vehicle license and registration fees.

⁷ The Division of Taxation reports the use tax generated from the purchase of new and pre-owned motor vehicles on a separate basis each month. ORA calculated the five fiscal year average of these registry receipts for the period FY 2013 through FY 2017 by month and used these percentages to allocate the receipt of the use tax on automobile document fees throughout FY 2018.

Cigarettes Tax

The 2017 General Assembly enacted an increase in the cigarette excise tax from \$3.75 per pack of 20 cigarettes to \$4.25 per pack of 20 cigarettes. This increase in the cigarette excise tax is projected to increase revenues from cigarette excise taxes by \$7,159,075 (adjusted for delay in implementation from August 1, 2017 to August 16, 2017 as a result of the late passage of the budget on August 3, 2017). Of this amount, \$1,028,208 is cigarette excise tax floor stock revenue of \$0.50 per pack for all cigarettes held in stock by distributors and dealers as of 12:01 AM on August 16, 2017. Based on the cigarette excise tax increase enacted for FY 2016, it is expected that 96.9 percent of this revenue will be received in August. The rest of the revenue is cigarette excise tax revenue that is generated when distributors replenish depleted cigarette stocks and purchase cigarette excise tax stamps at a cost of \$4.25 each. This revenue is expected to be realized in the September 2017 through June 2018 period. Cigarette excise tax revenues for July 2017 and September 2017 through June 2018 have been adjusted to reflect the lower revenue flows from the cigarette floor stock tax for these periods. Cigarette excise tax revenues for July and August 2017 have been adjusted to reflect the lower revenue flows from the cigarette excise tax for these two months.

Departmental Receipts

The 2017 General Assembly passed legislation that impacted the FY 2018 revenue flows for a number of departmental receipts items. These items include increasing various fines and penalties administered by the Department of Labor and Training to increase revenues by \$650,000; delaying the issuance of new motor vehicle license plates to April 2018 reducing sales from motor vehicle license plates by \$3.0 million; the Office of the Attorney General receiving increased lawsuit settlement payments of \$580,000; and increased indirect cost recovery receipts of \$60,000 from the creation of an e-procurement restricted receipt account. The monthly distribution of all of these revenue flows are expected to be the same as departmental receipts revenues in general.

Other Miscellaneous Revenues

In the 2017 Session, the General Assembly increased FY 2018 other miscellaneous revenues by \$29.2 million. This increased revenue consists of \$29.0 million in transfers of excess reserves from various quasi-public state agencies or programs mandated by state law. The remaining \$160,380 reflects an increase in the rent charged the Public Utilities Commission for the building it occupies on Jefferson Boulevard in Warwick. The monthly distribution of these revenue flows will be recorded as they are received.